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PENNSYLVANIA RAILROAD SYSTEM
BROAD STREET STATION
PHILA., PA.

385.73
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HOW CAN THE RAILROADS PROMOTE

ADDRESS OF GENERAL W. W. ATTERBURY, VICE-PRESIDENT
RAILROAD SYSTEM, BEFORE ANNUAL
IMPLEMENT ASSOCIATION
CHICAGO

CHICAGO, OCTOBER 14, 1921.

*Speaking before the annual convention of the National
Vehicle & Implement Association in Chicago, today,
General W. W. Atterbury, vice-president in charge of*

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THE RETURN OF PROSPERITY?

ADDRESS OF GENERAL W. W. ATTERBURY, VICE-PRESIDENT IN CHARGE OF OPERATION, PENNSYLVANIA RAILROAD SYSTEM, BEFORE ANNUAL CONVENTION OF NATIONAL VEHICLE AND IMPLEMENT ASSOCIATION, CONGRESS HOTEL, CHICAGO, ILLINOIS.

CHICAGO, OCTOBER 14, 1921.

Speaking before the annual convention of the National Vehicle & Implement Association in Chicago, today, General W. W. Atterbury, vice-president in charge of operation, Pennsylvania Railroad System, said:

Your President asked me to speak to you today on "How can the railroads promote the return of prosperity?" If I do so, it must be with the understanding that I speak simply as an American citizen, and that I speak neither for the railroads as a whole, nor for the Pennsylvania Railroad in particular.

The value of what I may say must be weighed in the light of the fact that for thirty-five years I have worked for a railroad that has always been honestly conducted, and during these years it has been my privilege to have been associated with men whose life work was to make "The Pennsylvania Railroad" the synonym of "good service," to pay its stockholders reasonable dividends, and to aid in developing the industries along its line, and to have an ambitious, efficient and courteous body of officers and employees.

A few days ago in endeavoring to explain to one of my friends that the railroads should be allowed sufficient revenue to maintain themselves properly, and to give the necessary increased service to meet the constantly expanding needs of the country, I took the position that the railroads should be allowed the same initiative in conducting their business that other industries have, and quoted from reliable figures the success that has attended certain large manufacturing enterprises.

I think my friend felt that I was envious of their success. On the contrary, I was merely wishing that for the railroads we had their opportunity.

He replied—"Why, you in the railroad business produce nothing. You are no more than any ordinary porting our goods after we produce them."

I did not answer him, but I put his statement in the back of my head.

For the present purpose, I am willing to accept his statement of the function of the railroads.

It is not an uncommon thing to see, out under a tree in a field grown up with weeds, its value diminished if not entirely gone, some expensive piece of agricultural machinery. Seeing it, you say to yourself at once—"How foolish that farmer is to neglect his tools."

In a manufacturing plant, the first evidence of decay in manufacturing is short-sightedness in not maintaining existing tools or not bringing old equipment up to modern requirements.

So for the moment, I am prepared to consider that the railroads are simply tools for your use, but in the same breath I accuse you, whether of the farm or in industry, of having taken bad care of that essential and important tool—transportation. If the railroads are your "tools," it is clearly your responsibility to see to it that your "tools" are properly maintained.

Let me take your thoughts back a generation, to the days of Cassatt, Hill, Harriman and other great figures of railroadng, men of vision, courage, foresight, enterprise and initiative.

Of course abuses existed, but after all they were rare, and great constructive ability and promotion of public prosperity the rule. Some of them may have made their "millions," but they left us a legacy of a railroad transportation system in our country that cannot be equalled in all the world today, built up during one of the most successful periods of our National existence. In the great aggregate wealth of the country the fortunes of such leaders are negligible and in two generations are again distributed. In the meantime, the nation has had the benefit of their great creative minds, and their fortunes become an inherent part of the productive investment of this country; all tending to reduce living costs and to raise living standards.

No one at all familiar with our National history needs to be told that from the time when railroads were first constructed, they have been the vital factor in the commercial development of this country, and in the settlement and opening up to civilization of its vast areas. We are, in truth, a railroad-made nation.

If you stop to think, I am sure you will also realize that railroad building and expansion, throughout our periods of growth and development, have always preceded and not followed the processes of our commercial and agricultural development, and the outspreading of our population. The railroads, indeed, have been the pathfinders and pioneers.

The names of railroad men used to stand out because the men themselves stood out. For two generations railroadng had been a big, free, expanding field—offering big prizes, wide opportunities, a clear scope for the exercise of all the initiative, energy and ability that a man had in him. The result, inevitable as water running down hill, was that American energy and ability poured into railroadng. That field drew ambition and brains by a natural force of gravitation. The schoolboys in country towns along the right of way felt it.

We can thank the hardy pioneer railroad builders who pushed their rails into the wilderness without thought of let or hindrance.

The bulk of our railroad building plan, east of the Mississippi River, is finished. There remain connecting links to be built, second, third and fourth tracks to be added, sidings to be lengthened and terminals and yards to be enlarged. These are the last touches to the greatest railroad program in the world. If allowed the same freedom of action as their predecessors, the present railroad executives will do their part, with like skill and courage.

During this period of development, however, railroad regulations began to take serious form. The Interstate Commerce Act, approved February 4, 1887, has been continually amended, each amendment bringing with it more and more restraint, and leaving to railroad managers less and less initiative.

Coincident with these amendments came state legislation, creating the Public Utilities Commissions, designed to do in a small way what the Interstate Commerce Commission was doing in a large way.

Always there was growing the ever-swelling stream of legislation of a restrictive character, some financial, some political and some utterly selfish, but all tending to increase the cost of operation, and lessen the initiative of the management.

There came a veritable avalanche of regulatory legislation.—Safety Appliance Acts, Hours of Service Act, Employers' Liability Act, Asupan Act, Clayton

Anti-Trust Act, Headlights, Fire Doors, Transportation of Explosives, Adamson Act, Railway Mail Service, Full Crew Laws, Bills of Lading, Boiler Inspection,—and so on—some good, the majority bad, but all working to take away from the management actual control of the operation of the property.

Now let's see how you, as the user of the "tools," have profited by "Regulation."

Since 1906 your export grain rate, let us say from Chicago to New York has increased from 13.5c to 31.5c per hundred pounds; flour, from 15c to 32½c per hundred pounds.

Note, for example, the following increases in transportation rates between unvarying points, generally since 1906:

Fresh Meats (Dressed Beef, Sheep and Hogs).....45c to 96.5c
Chicago to New York per 100 lbs. in carload lots.

Butter and Eggs.....65c to \$1.05
Chicago to New York per 100 lbs. in carload lots.

Agricultural Implements.....30c to 63c
Chicago to New York per 100 lbs. in carload lots.

Bituminous Coal.....\$1.80 to \$3.46
Clearfield Region to New York (37th Street) per 2240 lbs. in carload lots.

Anthracite Coal.....\$1.40 to \$2.66
Lehigh Region to New York (37th Street) (Small Anthracite Coal) per 2240 lbs. in carload lots.

Manufactured Iron and Steel Articles (since 1907).....16c to 38c
Pittsburgh to New York City, per 100 lbs. in carload lots.

Lumber.....\$2.20 to \$4.48
Norfolk, Va., to Philadelphia and Harrisburg, Pa., per net ton, in carload lots.

Shoes (since 1910).....38c to 80.5c
Boston, Mass., to Harrisburg, Pa., per 100 pounds, any quantity.

Dry Goods (since 1909).....35c to 74c
Philadelphia, Pa., to Williamsport, Pa., per 100 pounds, L. C. L.

Canned Fruits and Vegetables.....22c to 51c
Baltimore, Md., to Cincinnati, Ohio, per 100 pounds, in carload lots.

Sugar (since 1909).....16c to 35c
Philadelphia, Pa., to Erie, Pa., per 100 pounds in carload lots.

Clearly you have not profited.

Now let's see the effect of "Regulation" on the owners of the property.

The average value of the stock of the Pennsylvania Railroad, high and low, for 1900-01-02, was 74. Today it is 36½.

The operating ratio average for these three years was 65.5. For 1920 the operating ratio was 105.2—for the first eight months of 1921, 87.5.

During that period the Pennsylvania Railroad earned as net income per dollar of capital stock approximately 12%, half of which was paid out in dividends at 6%, and the other half put right back into the property. In those days the slogan was "A Dollar for Dividends, and a Dollar for Improvements." For the year 1920, after paying the same rate of dividend, there was but six-tenths of one per cent. put back into the property.

Thus after twenty years of regulation, the public finds itself compelled to pay a one hundred per cent. increase in freight rates; railroad efficiency by virtue of the same influence has been reduced, and railroad securities under pressure of decreased earnings are forced down to such unprecedented levels that managements are unable to obtain aid through the usual channels of popular finance.

From this it is quite evident that neither the owners of the property, nor you the users, can be, nor should be satisfied with railroad transportation as it exists today.

The Transportation "tools" are in bad shape, and you, the public, who have assumed the functions of the management through your legislative and regulatory bodies, are responsible, nor can you evade your responsibility. Do not "blame it on the war." Cassatt, Hill, Harriman, and the others, all prophesied what would happen. Nineteen Seventeen was but the culmination of twenty years of starvation and regulation. Then you tried "Government Ownership," and then for a few months you tried, through "Government control," to let the employees run the railroads through their labor organizations.

Nobody is running the roads; nobody is responsible for them. Government says the management is in private hands; but the privately elected managers have only slight authority and only slight responsibility. Interstate Commerce Commission, Labor Board and State Commissions, all inco-ordinated bodies, say they're not running the roads; they are merely laying down the rules. Here is the extraordinary case of a nation's land transportation system, a vital factor in almost every industry and business, with nobody at all managing it, nobody at all responsible for it. It is at large—floundering.

Government control, to the extent which regulation has brought it, is a failure. It will never be a success. It squeezes out individual initiative and opportunity, individual rewards and punishments; nobody has a free hand, nobody is responsible. It decides economic questions politically.

Nothing can take the place of individual initiative, ability and responsibility. We are trying fatuously to keep those things in railroadng while introducing the profit-limiting, opportunity-limiting, initiative-limiting political control which automatically drives them out. The experiment is a failure. It will continue a failure. Under it the railroads can neither attract the private ability nor the private capital that they ought to have.

The railroad problem is today more political than economical. The withering hand of government interference has dried up the sources from which railroad management built its colossal structure. Investment capital is always shy of political control.

As it stands today, 90 per cent. of the income and 75 per cent. of the outlay of the railroads is governmentally administered.

What latitude this leaves for efficient administration is patent to even the average citizen. Business in general feels this malign influence and what hurts business also hurts the railroads—the arteries of trade.

With control of their expenditures in their own hands, subject only to economic laws, the railroad business ought to be permitted to readjust itself as other business must do and is doing.

You must, of course, supervise your common carriers in the interest of the public that they may not deal unfairly with you, and you must also, as far as is reasonable and possible, see to it that your policy toward them is liberal enough so that they may not be deprived of the ability to make a living—this that they may continue to function and give the public the transportation service it must have; but you must not think you can continue the policy of private ownership and at the same time regulate every railroad method and operation and still expect them to continue to show enterprise and initiative. Too much protection and too much regulation are disastrous.

Railroad rates and fares should be designed to yield the Railroad Companies aggregate revenues which will provide (after allotment has been made for Renewals and Depreciation) such net return upon a fair value (determined by public authority) of the property devoted to the public use as will be sufficient in amount to enable the carriers to obtain at reasonable cost the capital required to furnish the public with adequate facilities and efficient and economical service.

The power to initiate rates should be with the carriers, and no body, national or state, should have the right or power of suspension.

There is no thought to relieve any of the regulatory bodies of the responsibility which they have, to fix penalties for unjust discrimination or improper practices, or the power eventually to decide as to the reasonableness of a rate.

The police powers should be such as would permit the punishment of the railroads when guilty of wrong, in common with that of all other business.

The President has wisely said "more business in Government and less Government in business."

Ralph Waldo Emerson says this:

"Wealth brings with it its own checks and balances. The basis of political economy is non interference. The only safe rule is found in the self-adjusting meter of demand and supply. I do not legislate. Meddle, and you snap the sinews with your sumptuary laws. Give no bounties; make equal laws; secure life and property, and you need not give alms. Open the doors of opportunity to talent and virtue, and they will do themselves justice, and property will not be in bad hands. In a free and just commonwealth, property rushes from the idle and imbecile to the industrious, brave and persevering."

How long is it since you have read Edgar Allan Poe's "The Pit and the Pendulum"? If not recently, then hunt it up and read it again. It is the story of the Inquisition.

But where today is "General LaSalle" and when will the "French army enter Toledo"?

In part through the destruction of the war, and perhaps in equal part through the faults of Allied and American statesmanship and the disruptive effects and economic vices of the Peace Treaties, the purchasing and consuming power of the several hundred millions of people has been seriously crippled. The purchasing and consuming power of the world is an essential element in our prosperity; our own productive capacity has outrun our consuming capacity.

There can be no hope for the return of real prosperity until the world in general finds political and industrial peace, and the general interchange of commodities between the great countries of the world is resumed. When that time comes, however, we must be prepared to meet the most extreme competition.

Before the war, at least ten per cent. of our population was directly dependent upon and supported by our export trade.

In order to use the capacity of our industrial plants, and to give full employment to our workers, we must make every effort to hold our own in the markets of the world. That is only possible if the costs of production can be brought into line with existing conditions.

To that end, the prerequisites are that waste and extravagance be eliminated, costs of production brought down, and that both capital and labor should recognize the need of adjusting their respective compensations to the circumstances which the country has to meet.

All of us will be better off by getting away as soon as possible from an artificial plane which has been of genuine benefit to no one, but has done great harm to a large portion of our population.

In the cost of production of everything, transportation charges necessarily enter and transportation must do its share of deflation.

There is no way to have prosperity except by self-supporting, balanced industry; by the free and natural exchange of products and services, and this requires that the compensation of the people in the various industries shall be on such a basis that they will absorb each other's products.

A study of the readjustment processes indicates that the price of practically every commodity has been heavily reduced. Transportation, coal, and the building trades, are the outstanding exceptions.

Freight rates, which are such a large factor in our industrial fabric, have not been adjusted, but remain at the highest level in history. Manifestly, there can be no return to normal business conditions until the price of transportation bears a proper relation to commodity values.

The business of this country has been developed on the wide distribution of commodities, encouraged by freight rates that bore a proper relation to the prices of the commodities, and as these prices fall, so must the rates be readjusted.

Demands for a reduction in rates are now becoming almost universal. The railroads are accused of hiding behind the two provisions of the law—one creating the U. S. Railroad Labor Board which has jurisdiction over wages, and the other directing that rates shall be so made as to bring a certain net return—and that our railroad executives prefer rather to operate under false economic conditions and pass the cost on to the public

than to stand on their own feet and battle without Government protection for a return to normal conditions.

As a matter of fact, there is little evidence that a reduction in freight and passenger rates will stimulate business, and give work to the unemployed. It should be known to the country at large that the carriers have been readjusting downward their freight rates for many months past, and that these reductions have not stimulated business, nor have they produced the additional tonnage that such reductions would have brought about under ordinary circumstances.

A general reduction in freight rates will not of itself restore business to normalcy, nor can a general reduction be demanded of the carriers in the present condition of their revenues. At the same time, it is beyond question that there are situations where reductions might be made.

The railroad companies are not interested in maintaining rates under which traffic cannot move, and have made many reductions for the purpose of stimulating traffic.

The railroads are vitally interested in an early return to a proper ratio between commodity values and costs of transportation. In fact, if the present condition of high rates long continues, many industries will be relocated at points nearer consumption, the railroads losing traffic, and the industries their investment.

Nevertheless, it is a fact that the carriers, though they are not earning what they should earn to entitle them to be called prosperous, nor what the law intends they shall earn, cannot rest under such protection while other business struggles for its life.

It would be wise policy for the carriers publicly to avow that view, and voluntarily move to reduce rates where they now work hardship, even though such rates may be reasonable in a transportation sense, and even though to reduce them means a loss of revenue to the carriers. The carriers can do this of their own volition where it would be improper for the Interstate Commerce Commission to do so.

The result would be a temporary check in the rising fortunes of the carriers, and that they can ill afford, but it would be a step in the restoration of sound business conditions, and the public should give to the carriers a real appreciation of their act.

There is the opportunity here for the railroads to achieve a place in public esteem.

But costs of production must come down, and that can only be brought about through wage reductions.

My official duties charge me with acting as the operating head of an organization employing some 200,000 men. A large number of these men are my personal friends, and we have worked together for many years. It has always been my pleasure, as well as my duty, to see that all of them are earning every cent that could possibly be paid to them.

I recognize, as an operating officer, the importance of having their confidence and support, and their loyal enthusiasm in rendering good service to the company which we both serve.

I happen to be at a point in an organization which in its relationship to the public and in its relationship to its employees is subject to the operation of economic forces as inexorable and overwhelming as the operation of the tides.

No one who has not been through the mill can realize what a man feels who has been under the necessity of directing a reduction in forces, depriving a large number of men of their employment, and a reduction in wages.

Under such conditions one cannot think of himself, nor of them, but only of the general situation as a whole and the final result.

I ask you to feel, therefore, and I ask every railroad employee who may happen to hear of these utterances of mine, to believe that in suggesting readjustment of wages now, I am giving expression to what to me is a necessity, which unless faced now, will come with far greater force later on.

The railroad companies should not have to bear the whole burden of insisting upon wage reductions. It is a readjustment in which the public is interested, and the public should lend its influence in support of the railroads.

The issue whether railroad labor shall be a preferred class, fixing its own compensation without regard to the effect upon other interests, must be squarely met. In the long run, a fair adjustment is in the best interest of the railroad employees.

My judgment, therefore, is:

1. That the railroads of this country, in order to show their good faith, should make an adjustment in rates. This adjustment should go to the agricultural interests, inasmuch as they are by far the largest and most important element of our population, and have already themselves borne the brunt of the greatest deflation.

2. That there should be an immediate application on the part of the railroads to the U. S. Railroad Labor Board for a reduction in wages commensurate with the change in wages in other industries.

3. That the public should enter heartily into, and assist the carriers in the request for a reduction in railroad wages.

4. That the railroads should immediately pass on to the public, in reduced rates, whatever saving may hereafter be accomplished through reduced wages, except insofar as rate reductions already shall have been made.

5. That the public should stand solidly behind the railroads in a program of laws and regulations which while sound economically, shall yet not impair the initiative of railroad management.

By the reduction in rates, the reduction in wages and the release from regulation, by co-operation between the public and the public's railroads, the railroads will have been brought into harmony with the readjustment so essential to the return of prosperity.